

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

OCTOBER 2001 VOLUME XXIII NO. 4

The September 2001 issue of the *Idaho Outlook* was devoted to national economic impacts of the terrorists' attacks on America. In this issue we expand this analysis by evaluating the impacts of September 11, 2001 on the Idaho economy. To accomplish this we ran two versions of the Idaho Economic Model for October 2001. One assumed the attacks had not occurred and the other included the impacts of the attack. Because they share the same base, any differences between the two forecasts solely reflect the impacts of the attacks. These impacts have been summarized in the accompanying table.

impacts to flow into Idaho. Third, the impacts of the attacks dissipate with time. As the table illustrates, by 2004 the impacts begin to get smaller. This implies the pre-attack and post-attack forecasts converge over time.

The attacks have a relatively minor impact on Idaho nonfarm employment in 2001. We calculate the impact to be a reduction of about 320 jobs, which is less than one-tenth of a percent of total jobs. Unfortunately, this does not mean Idaho's economy is unscathed by the events of September 11, 2001. The lion's shares of the impacts occur in 2002 and 2003. Specifically,

relatively quickly. In the post-attack forecast Idaho manufacturing employment is down 1,077 (1.4%) in 2002 and 656 (0.8%) lower in 2003. Construction is the Idaho sector least impacted by the attacks. Its pre-attack and post-attack employment numbers are virtually the same in each year. Unfortunately, the same cannot be said for Idaho's already struggling mining sector. The terrorists' attacks reduce mining employment 184 jobs (9.0%) in 2002 and 150 jobs (7.3%) in 2003. Obviously, although the level of jobs lost seems small, the mining sector shoulders a relatively heavy burden.

Unlike the manufacturing sector, the state's non-manufacturing sector takes its biggest employment hits in 2003 instead of 2002. This is because the impacts of the attacks generally are not directly felt by the non-manufacturing sector. The impacts are felt by the Idaho manufacturing sector first. The changes in manufacturing sector then ripple through to its non-manufacturing sector. We estimate the attacks cost Idaho's non-manufacturing sector 1,533 jobs (0.3%) in 2002 and 1,958 jobs (0.4%) in 2003. Employment in this sector is dominated by two industries: trade and services. Given their size, it is worth examining how they fare after accounting for the attacks. Trade employment is down 680 jobs (0.5%) in 2002 and 814 jobs (0.5%) in 2003. Services employment is off 981 (0.6%) next year and 1,173 (0.7%) in 2003.

We also looked at the impacts on Idaho personal income. The attacks stripped \$207 million (0.7%) from Idaho real personal income in 2002 and \$166 million (0.5%) in 2003. And the number declines further in 2004.

Idaho Economic Impacts of Attacks				
	Year			
	2001	2002	2003	2004
<i>Idaho Nonfarm Employment</i>	(319)	(2,170)	(2,761)	(2,054)
Manufacturing	(210)	(1,077)	(656)	(464)
Construction	0	(5)	2	(40)
Mining	(15)	(184)	(150)	(82)
Non-Manufacturing	(95)	(1,533)	(1,958)	(1,467)
Trade	(45)	(680)	(814)	(588)
Services	(64)	(981)	(1,173)	(847)
<i>Idaho Real Personal Income (\$ millions)</i>	(\$34)	(\$207)	(\$166)	(\$121)

Our analysis revealed three general points. First, it is important to separate any reductions in the Idaho economy into those caused by the overall slowing of the national economy and those caused by the attacks. While it is tempting to blame all of the current economic woes on the attacks, to do so grossly overestimates their importance. The economy clearly slowed this summer, and this must be accounted for in order to make an accurate assessment of the attacks. Second, Idaho should feel the greatest employment impacts in 2003. The major impacts of the attacks on the national economy will be felt in 2002. It will take a while for these national

Idaho nonfarm employment is down 2,170 (0.4%) in 2002 and 2,761 (0.5%) in 2003. Gem State nonfarm employment begins to converge beginning in 2004. In that year employment is off just 2,054 (0.3%).

Since Idaho nonfarm employment experiences its biggest reductions in 2002 and 2003, it makes sense to focus on how certain employment sectors fare in those years. First, manufacturing employment was forecast to be 76,796 in 2002 and 78,427 in 2003 before the attacks took place. Interestingly, Idaho manufacturing employment is impacted sooner than most sectors and recovers

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General Fund Update

As of September 30, 2001

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY02	DFM	Actual
	Executive Estimate ³	Predicted To Date	Accrued To Date
Individual Income Tax	973.1	198.7	191.6
Corporate Income Tax	102.5	25.9	14.4
Sales Tax	666.6	173.9	175.0
Product Taxes ¹	20.4	5.5	5.6
Miscellaneous	<u>112.4</u>	<u>25.6</u>	<u>25.2</u>
TOTAL GENERAL FUND²	1,875.0	429.6	411.9

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of August 2001

General Fund Revenue fell \$2.3 million short of its target for the month of September. This brings revenue for the fiscal year to date \$17.7 million below the amount predicted. September's weakness was concentrated in the Individual Income Tax and Miscellaneous Revenues. The Corporate Income Tax actually made a comeback in September with collections exceeding expectations for the first time this fiscal year.

Individual Income Tax revenue was \$3.5 million lower than expected in September. This weakness was entirely due to withholding collections that were \$4.8 million lower than expected. Partial offsets came in the form of slightly (\$0.8 million) higher-than-expected filing payments and slightly (\$0.5 million) lower-than-expected refund payments.

This category is now \$7.1 million below the year-to-date target, a variance of 3.6%, of which \$6.5 million is in withholding collections.

Corporate Income Tax revenue was \$2.2 million higher than expected in September, and stands \$11.5 million below the predicted amount for the year to date. A very positive aspect of September's strength is that estimated payments were \$1.6 million higher than expected. September is the first of four major estimated payment months this fiscal year (the others are December, April, and June), and this component of the Corporate Income Tax is now only \$2.4 million below the predicted amount for the fiscal year to date.

Sales Tax collections were \$0.2 million above the target for September, bringing the year to date to a level \$1.1 million above the predicted amount. September sales tax collections reflect sales activity in August, so this predates the NY and DC terrorist attacks.

Product Taxes were slightly (\$0.1 million) ahead of the target for September, while Miscellaneous Revenue was \$1.4 million lower than predicted for September. The weakness in Miscellaneous Revenues covers quite a few components, including the Kilowatt Hour Tax, the Estate Tax, the Mine License Tax, Interest Earnings, the Insurance Premium Tax, Alcoholic Beverage Licenses, and Land Permits and Lease Payments. The Miscellaneous category now stands \$0.4 million below the fiscal year-to-date target.